

**Manning Municipal Gas Department
Independent Auditor's Report
Basic Financial Statements and
Schedule of Findings**

December 31, 2012 and 2011

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**Manning Municipal Gas Department
Officials
December 31, 2012**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bob Ehlers	Chairperson	June 2013
Randy Facile	Secretary	June 2014
Dixon Cole	Trustee	June 2016
Keith Kelderman	Trustee	June 2017
Allen Rix	Trustee	June 2012
Alison River	Trustee	June 2018
Kenneth Spies	Manager	Indefinite

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

February 6, 2013

Independent Auditor's Report

Lonnie G. Muxfeldt
Certified Public
Accountant

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Iowa

Missouri

To the Board of Trustees
Manning Municipal Gas Department
Manning, IA 51455

I have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the Manning Municipal Gas Department (a municipal utility) as of and for the years ended December 31, 2012 and 2011. These financial statements are the responsibility of the Manning Municipal Gas Department's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, the financial statements of Manning Municipal Gas Department are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the City of Manning, Iowa, that is attributable to the transactions of the Manning Municipal Gas Department.

February 6, 2013
Manning Municipal Gas Department
Independent Auditor's Report

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Manning Municipal Gas Department at December 31, 2012 and 2011 and the respective changes in its financial position and the cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards* I have also issued my report dated February 6, 2013, on my consideration of the Gas Department's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Manning Municipal Gas Department's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 10 and 31 through 33 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

 Murphy Associates, CPA, P.C.

Manning Municipal Gas Department Management's Discussion and Analysis

The Manning Municipal Gas Department provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the Utility is for the year ended December 31, 2012. Management encourages readers to consider this information in conjunction with the Utility's financial statements, which follow.

2012 Financial Highlights

The Utility's net operating revenues activity decreased 16%, or \$173,223 from 2011 to 2012.

The Utility's operating expenses decreased 8.5%, or \$78,502 from 2011 to 2012.

The Utility's net assets of business type activities decreased 68%, or \$118,900 from December 31, 2011 to 2012.

Using This Annual Report

This annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

Financial Statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. These provide information about the activities of Manning Municipal Gas Department as a whole and present an overall view of the Utility's finances.

Notes to financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

Manning Municipal Gas Department Management's Discussion and Analysis

Reporting the Utility's Financial Activities

Basic Financial Statements

One of the most important questions asked about the Utility's finances is, "Is the Utility, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information, which helps answer this question. These statements included all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all the Utility's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Utility's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report the following activity:

Business type activities include the gas utility. These activities are financed primarily by user charges.

Fund Financial Statements

The Utility has one fund:

Proprietary funds account for the Utility's Enterprise Fund. This fund reports services for which the Utility charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets. The Enterprise Fund includes the gas utility, considered to be the major fund of the Utility.

Manning Municipal Gas Department Management's Discussion and Analysis

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets as a statement of cash flows.

Basic Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for business type activities.

Net Assets at Year-end

Business Type Activity - Enterprise Fund

	<u>Year Ended</u>	
	<u>12/31/12</u>	<u>12/31/11</u>
Current assets	\$ 2,449,053	\$ 2,343,666
Capital assets	555,413	588,241
Other assets	599,234	619,234
Total assets	<u>\$ 3,603,700</u>	<u>\$ 3,551,141</u>
Current liabilities	<u>\$ 73,328</u>	<u>\$ 77,223</u>
Net assets:		
Invested in capital assets	\$ 555,413	\$ 588,241
Restricted	406,925	406,410
Unrestricted	2,568,034	2,479,267
Total net assets	<u>\$ 3,530,372</u>	<u>\$ 3,473,918</u>

Current assets constitute 68% of total assets and exceed current liabilities by thirty-three to one. Capital assets constitute 15% of total assets and represent the cost of infrastructure, buildings and equipment and is reported net of accumulated depreciation. Other assets constitute 16% of total assets and consist of the long term portion of notes receivable from the City of Manning and Manning Municipal Cable and Television System Utility. Net assets of business type activities increased approximately \$56,000, or 1% over 2011.

**Manning Municipal Gas Department
Management's Discussion and Analysis**

Changes in Net Assets
For the Year ended December 31,

Business Type Activity - Enterprise Fund

	<u>2012</u>	<u>2011</u>
Revenues:		
Charges for services	\$ 896,000	\$ 1,069,223
Interest income	41,744	44,679
Miscellaneous income	4,264	3,558
Total revenues	<u>942,008</u>	<u>1,117,460</u>
Operating expenses:		
Purchased gas	396,358	490,708
Distribution operations	158,856	163,048
Administrative and general	290,756	270,716
Total operating expenses	<u>845,970</u>	<u>924,472</u>
Other expenses:		
Community contributions	39,584	17,634
Total expenses	<u>885,554</u>	<u>942,106</u>
Increase (decrease) in net assets	56,454	175,354
Net assets, beginning of year	<u>3,473,918</u>	<u>3,298,564</u>
Net assets, end of year	\$ <u>3,530,372</u>	\$ <u>3,473,918</u>

Total revenues decreased by approximately \$175,000, or 16% for the year ended December 31, 2012. The principal reason is declining natural gas prices even though volume of gas sales increased slightly. The gross profit on gas sales was 55% for 2012, 54% for 2011, 39% for 2010, and 27% for both 2009 and 2008. The reason for this is that residential and commercial gas margins are relatively higher than for interruptible and large volume customers and constitute 72% and 28% of gas sales, respectively.

Manning Municipal Gas Department Management's Discussion and Analysis

Total expenses also declined by approximately \$56,500, or 6% for the year ended December 31, 2012. Purchased gas expense declined by 19% from 2011. Distribution expenses decreased by 2.5%, administrative and general expenses increased by approximately \$20,000, or 7%, and contributions for local economic development increased by approximately 125%, or \$21,950.

As a result of the above mentioned factors, the Gas Department posted a \$56,454 increase to net assets for the year ended December 31, 2012.

Budgetary Highlights

The City of Manning adopts a budget annually as required by Iowa law. The City budget, which is prepared on the cash basis of accounting, includes those funds of the Manning Municipal Gas Department for the period July 1, 2011 to June 30, 2012.

The Utility presents its budgetary information on a cash basis for the period January 1 to December 31, 2012. Disbursements did not exceed the final budgeted amounts.

Future Financial Statement Impact

Natural gas supplies continue to be plentiful, usage steady and prices continue to decline as of December 31, 2012. This trend is expected to continue through 2013.

Requests for Information

Requests for additional information can be made to the Manning Municipal Gas Department's manager, Ken Spies, 715 Third Street, Manning, Iowa 51455.

Basic Financial Statements

Exhibit A

**Manning Municipal Gas Department
Statements of Net Assets
December 31, 2012 and 2011**

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets		
Unrestricted		
Cash	\$ 78,913	\$ 81,803
Investments	1,580,522	1,449,804
Accounts receivable, net of allowance	45,500	88,474
Other receivable	108,474	107,534
Unbilled usage	83,609	63,545
Accrued interest receivable	18,821	15,789
Inventory	102,092	106,388
Prepaid expenses	4,197	3,919
Notes receivable, other municipal departments - current portion	<u>20,000</u>	<u>20,000</u>
Total unrestricted current assets	2,042,128	1,937,256
Restricted		
Customer deposits	6,925	6,410
Investments	<u>400,000</u>	<u>400,000</u>
Total restricted current assets	406,925	406,410
Total current assets	2,449,053	2,343,666
Property and Equipment		
Land, plants and mains	1,231,408	1,229,685
Warehouse	71,722	68,861
Shop equipment	111,986	109,178
Office equipment and fixtures	44,646	44,646
Office improvements	36,084	36,084
Transportation equipment	68,298	68,298
Border station	<u>16,232</u>	<u>16,232</u>
	1,580,376	1,572,984
Less accumulated depreciation	<u>1,024,963</u>	<u>984,743</u>
Total property and equipment	555,413	588,241
Other Assets		
Notes receivable, other municipal departments net of current portion	<u>599,234</u>	<u>619,234</u>
Total assets	\$ <u>3,603,700</u>	\$ <u>3,551,141</u>

See accompanying notes to financial statements

Exhibit A
Continued

Manning Municipal Gas Department
Statements of Net Assets
December 31, 2012 and 2011

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Payable from unrestricted current assets:		
Accounts payable	\$ 49,623	\$ 56,106
Accrued vacation and sick leave payable	13,506	11,147
Sales and use taxes payable	2,580	2,880
Property taxes payable	694	680
Total payables from unrestricted current assets	<u>66,403</u>	<u>70,813</u>
Payable from restricted current assets:		
Customer deposits	6,925	6,410
Total current liabilities	<u>73,328</u>	<u>77,223</u>
Net Assets		
Committed net assets	6,925	6,410
Assigned net assets:		
Invested in capital assets	555,413	588,241
Capital improvement	100,000	100,000
Depreciation	300,000	300,000
Unrestricted	2,568,034	2,479,267
Total net assets	<u>3,530,372</u>	<u>3,473,918</u>
Total liabilities and net assets	<u>\$ 3,603,700</u>	<u>\$ 3,551,141</u>

See accompanying notes to financial statements

Exhibit B

**Manning Municipal Gas Department
Statements of Revenues, Expenses, and
Changes in Net Assets
For the years ended December 31, 2012 and 2011**

	2012	2011
Operating Revenues		
Gas sales		
Residential	\$ 451,863	\$ 580,026
Commercial	188,626	232,449
Interruptible	104,605	123,452
Large volume	143,113	129,519
Total gas sales	<u>888,207</u>	<u>1,065,446</u>
Merchandise sales, net of cost	3,902	3,027
Service calls	1,150	640
Other revenue	2,741	110
Total	<u>7,793</u>	<u>3,777</u>
Total operating revenue	<u>896,000</u>	<u>1,069,223</u>
Operating Expenses		
Purchased gas	396,358	490,708
Distribution expenses		
Management labor	36,580	36,060
Line labor	87,419	85,585
Chemicals	2,278	3,991
Maintenance materials and supplies	22,493	26,091
Transportation and freight	5,546	5,880
Education	170	149
Miscellaneous	4,370	5,292
Total distribution expenses	<u>158,856</u>	<u>163,048</u>
Administrative and general expenses		
Advertising	124	20
Bad debts	1,272	1,796
Depreciation	40,220	39,035
Dues	8,073	7,328
Group insurance	50,312	48,834
Insurance - general	13,692	13,036
Integrity management	95	-0-
Maintenance - copiers and computers	4,362	4,219
Meeting and travel	68	-0-
Miscellaneous	7,368	6,631
Manager labor	41,417	36,120

Exhibit B
Continued

Manning Municipal Gas Department
Statements of Revenues, Expenses, and
Changes in Net Assets
For the years ended December 31, 2012 and 2011

Operating Expenses - continued	<u>2012</u>	<u>2011</u>
Administrative and general expenses - continued		
Office wages	\$ 46,216	\$ 44,283
Office supplies and maintenance	2,873	1,926
Official publications	933	746
Payroll taxes	15,635	15,335
Retirement contributions	16,809	14,625
Professional services	12,847	7,087
Real estate taxes	706	692
Rebate program/comfort plus homes	4,950	7,180
Safety	132	380
Trustees	2,996	2,995
Utilities, rent, city assessment	19,656	18,448
Total administrative and general expenses	<u>290,756</u>	<u>270,716</u>
Total operating expenses	<u>845,970</u>	<u>924,472</u>
Operating income (loss)	50,030	144,751
Non-operating Revenues (Expenses)		
Interest income	41,744	44,679
Miscellaneous income	4,264	3,558
Contribution - Housing Rehab Project	(4,488)	(2,839)
Contribution - Economic Development	(33,000)	(13,000)
Contribution - Project Trees	(568)	(250)
Contribution - Home Fitness Program	(1,528)	(1,545)
Net non-operating revenues (expenses)	<u>6,424</u>	<u>30,603</u>
Changes in net assets	56,454	175,354
Net assets, beginning of year	<u>3,473,918</u>	<u>3,298,564</u>
Net assets, end of year	\$ <u>3,530,372</u>	\$ <u>3,473,918</u>

See accompanying notes to financial statements

Exhibit C

**Manning Municipal Gas Department
Statements of Cash Flows
For the years ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 917,970	\$ 1,064,169
Cash payments for goods and services	(596,869)	(810,349)
Cash payments to employees	<u>(209,273)</u>	<u>(204,147)</u>
Net cash provided by operating activities	111,828	49,673
Cash Flows From Capital and Related Financial Activities:		
Non operating income received	4,264	3,558
Change in customer deposits	515	(2,150)
Acquisition and construction of capital assets	<u>(7,392)</u>	<u>(27,416)</u>
Net cash used for capital and related financing activities	(2,613)	(26,008)
Cash Flows From Investing Activities:		
Interest received	38,712	49,724
Community contributions	(39,584)	(17,634)
Note payments received	<u>20,000</u>	<u>20,000</u>
Net cash used for investing activities	19,128	52,090
Net increase in cash	128,343	75,755
Cash, Beginning of year	<u>1,938,017</u>	<u>1,862,262</u>
Cash, End of year	\$ <u>2,066,360</u>	\$ <u>1,938,017</u>

See accompanying notes to financial statements

Exhibit C
Continued

Manning Municipal Gas Department
Statements of Cash Flows
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities:		
Operating Income	\$ 50,030	\$ 144,751
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation	40,220	39,035
Net (increase) decrease in:		
Accounts receivables and unbilled usage	21,970	(109,857)
Inventories	4,296	(5,397)
Prepaid expenses	(278)	(235)
Net increase (decrease) in:		
Accounts payable	(6,483)	(16,729)
Accrued wages and vacation payable	2,359	(1,049)
Customer credits	-0-	(364)
Sales and use tax payable	(300)	(495)
Other accrued expenses	14	13
Net cash provided by operating activities	\$ <u>111,828</u>	\$ <u>49,673</u>
Reconciliation of cash and cash equivalents at		
year end to specific assets included on the		
Balance Sheet		
Current assets:		
Cash	\$ 78,913	\$ 81,803
Investments	1,580,522	1,449,804
Restricted assets:		
Depreciation reserve	300,000	300,000
Capital improvements	100,000	100,000
Customer deposits	6,925	6,410
Total cash	\$ <u>2,066,360</u>	\$ <u>1,938,017</u>

See accompanying notes to financial statements

Notes to Financial Statements

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Manning Municipal Gas Department is a component unit of the City of Manning, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board (GASB). The Gas Department is governed by a five member board of trustees appointed by the City Council. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Manning Municipal Gas Department has no component units which meet the Governmental Accounting Standards Board (GASB) criteria.

The financial statements include only those funds of the Gas Department and are not intended to present all funds of the City of Manning, Iowa.

B. Jointly Governed Organizations

The Utility participates in several jointly governed organizations that provide goods or services to the citizenry of the Utility but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. Utility officials are members of the following boards: Manning Municipal Communication and Television System Utility, Manning Betterment Foundation, and Manning Economic Development Corporation, Templeton Manning Joint Gas Service Utility Board, Aspinwall Manning Joint Gas Service Utility Board, Iowa Municipal Utilities Association, Clayton Energy Buying Group, and American Public Gas Association.

C. Nature of Business

Formed as a Utility in 1961, the Manning Municipal Gas Department distributes natural gas to the residents and businesses of Manning, Iowa. In 1992, the Gas Department expanded distribution to Templeton, Iowa and, in 1997, to Aspinwall, Iowa. The Utility's revenues are dependent upon the economic condition of its residential and commercial customers.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The proprietary fund of the Gas Department applies all applicable Governmental Accounting Standards Board (GASB) pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles, Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility Board distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility Board's principal ongoing operations. The principal operating revenues of the Gas Department are charges to customers for sales and service. Operating expenses for the Gas Utility include the cost of sales and services, administration expenses and depreciation on capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses.

The Gas Department maintains its accounting records on the basis of cash receipts and disbursements. For financial reporting purposes, accruals are recorded in conformity with U.S. generally accepted accounting principles.

The Statement of Net Assets presents the Gas Department's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by any outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those capital assets.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Restricted net assets result when constraints placed on the use of net assets are externally imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the criteria of the two preceding categories. Unrestricted net assets often have constraints on resources that management can remove or modify.

E. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis. The budget of the Utility is submitted with that of the City of Manning following required public notice and hearing. The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Cash and Cash Equivalents

Cash consists of checking accounts, cash on hand, and savings. Investments consist of certificates of deposit. For purposes on the Statement of Cash Flows, the Gas Utility considers all deposits to be cash equivalents. Investments are stated at cost which approximates market.

G. Accounts Receivable

Accounts receivable are presented at their net realizable values. The allowance for doubtful accounts is \$612 at December 31, 2012 and 2011.

Customer meters are read monthly. Manning customers are billed the 1st of the month and Templeton, Aspinwall and AGP customers are billed on the 13th of each month. Collection procedures are determined by Commerce Commission Rules as follows: normal customers have twenty days to remit payment whereas budget plan customers have thirty days. No surcharges or interest charges are added to delinquencies. Shut off procedures also differ by season: April 1st through October 31st favor the Utility while November 1st through March 31st favor the consumer.

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2012 and 2011**

(1) Summary of Significant Accounting Policies (Continued)

H. Unbilled Usage

The Utility estimates unbilled usage by prorating the total billing based on the number of days still in the accounting period versus the total number of days in the billing period.

I. Inventory

Material and supplies are valued at the lower of cost or market on a per item basis. Gas inventory is valued at the weighted average cost of gas per MMBtu's in storage.

J. Restricted Assets

The Utility includes in restricted assets those amounts received from customers as deposits on their gas accounts. Other restricted assets include amounts set aside as a Depreciation and Capital Improvement Reserve.

K. Capital Assets

Capital assets include property, plant and equipment. Capital assets are stated at cost. Depreciation is computed using straight line methods applied to the estimated useful lives of the various assets. The Utility records a half year's depreciation in both the year of acquisition and retirement and is computed over the following useful lives:

Plant and mains	30-40 years
Office and shop equipment	5-10 years
Vehicles	5 years
Warehouse and office improvements	20 years
Border station - odorizer	20 years

Expenses for maintenance, repairs and minor replacements are charged to operations. Expenses for major repairs and betterments are charged to property, plant and equipment accounts.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies (Continued)

L. Customer Deposits

Meter deposits are collected from new customers prior to connection. Customers in good standing are eligible to receive a deposit refund after one year.

M. Operating Revenues

Revenues are based on billing rates applied to customer usage. Meters are read monthly. Western Consulting Inc, calculates the rate to charge per MCF on a monthly basis.

N. Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of the issuance of the accompanying financial statements, no material changes to the estimates used therein were anticipated by management in the near term.

(2) Cash and Investments

The Utility Board's deposits in banks at December 31, 2012 and 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The Utility Board is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2012 and 2011

(2) Cash and Investments (Continued)

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the need and use of the Utility.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 3, as amended by Statement No 40.

The Utility's cash and investments at December 31, 2012 and 2011 are as follows:

	<u>Cash</u>	<u>Certificates of Deposit</u>
December 31, 2012		
Unrestricted	\$ 78,913	\$ 1,580,522
Restricted	6,925	400,000
	<u>\$ 85,838</u>	<u>\$ 1,980,522</u>
December 31, 2011		
Unrestricted	\$ 81,803	\$ 1,449,804
Restricted	6,410	400,000
	<u>\$ 88,213</u>	<u>\$ 1,849,804</u>

(3) Restricted Assets

The Board of Trustees established by resolution, various reserve account funds to accumulate surplus net revenue for the following purposes:

	<u>2012</u>	<u>2011</u>
Customer Deposits - Cash	\$ 6,925	\$ 6,410
Depreciation Reserve - Certificates of Deposit	300,000	300,000
Capital Improvement Reserve - Certificate of Deposit	<u>100,000</u>	<u>100,000</u>
	<u>\$ 406,925</u>	<u>\$ 406,410</u>

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2012 and 2011

(4) Capital Assets

Capital assets activity for the year ended December 31, 2012 is summarized as follows:

	Balance 12/31/11	Additions	Deletions	Balance 12/31/12
Land	\$ 2,500	\$ -0-	\$ -0-	\$ 2,500
Plants and mains	1,227,185	1,723	-0-	1,228,908
Warehouse	68,861	2,861	-0-	71,722
Shop equipment	109,178	2,808	-0-	111,986
Office equipment	44,646	-0-	-0-	44,646
Office improvements	36,084	-0-	-0-	36,084
Transportation	68,298	-0-	-0-	68,298
Border station	16,232	-0-	-0-	16,232
	<u>1,572,984</u>	<u>7,392</u>	<u>-0-</u>	<u>1,580,376</u>
Less: accumulated depreciation	<u>984,743</u>	<u>40,220</u>	<u>-0-</u>	<u>1,024,963</u>
Capital assets, net	\$ <u>588,241</u>	\$ <u>(32,828)</u>	\$ <u>-0-</u>	\$ <u>555,413</u>
Depreciation charged to operations				\$ <u>40,220</u>

(5) Related Party Transactions

<u>Water Tower Note</u>	<u>2012</u>	<u>2011</u>
Unsecured note receivable from the City of Manning, due in annual installments of \$20,000 plus interest until principal is paid on October 1, 2018. The interest rate is adjusted each October 1 st to 1% higher than the maximum rate offered by Templeton Savings Bank on a twelve month certificate of deposit. The note financed water tower construction and repairs. The interest rate on October 1, 2012 was 2.95%.	\$ 119,234	\$ 139,234

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2012 and 2011**

(5) Related Party Transactions (Continued)

<u>MMCTSU Note</u>	<u>2012</u>	<u>2011</u>
Note receivable from the Manning Municipal Communications and Television System Utility to be used for broadband communications system. The interest rate is adjusted on July 15 th each year to a rate which is 1% higher than that offered by Templeton Savings Bank on a twelve month certificate of deposit. The interest rate on July 15, 2012 was 2.25%. Interest does not accrue on the unpaid interest balance, there are no required principal payments, and payments of principal and interest may not exceed \$100,000 per year.	\$ 500,000	\$ 500,000
	619,234	639,234
Less: current portion	<u>20,000</u>	<u>20,000</u>
Long-term portion	\$ <u>599,234</u>	\$ <u>619,234</u>

Municipal Officials

For the years ended December 31, 2012 and 2011, the Manning Municipal Gas Department paid businesses owned by employees or officials of the Gas Utility for the following:

	<u>2012</u>	<u>2011</u>
Supplies	\$ 877	\$ 221
Fuel	667	2,670
Total	\$ <u>1,544</u>	\$ <u>2,891</u>

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2012 and 2011

(6) Compensated Absences

Manning Municipal Gas Department employees accrue sick leave benefits at the rate of 88 hours per year, which is equivalent to an average pay period. Sick leave benefits are calculated at their current rate of pay. Unused sick leave benefits will be allowed to accumulate until the employee has accrued a total of 88 hours of sick leave benefits in a twelve month period. Unused sick leave benefits will be paid to employees, if eligible, on the employee's anniversary date or upon termination of employment. Sick leave payable at December 31, 2012 and 2011 was \$5,026 and \$4,706, respectively.

Employees accrue vacation benefits beginning on the employee's hire date. Vacation time off is paid at the employee's base rate at the time of vacation. In the event that available vacation is not used by the end of the benefit year, employees will forfeit the unused time. Upon termination of employment, employees will be paid for unused vacation time that has been accrued through the last day of employment. Vacation payable at December 31, 2012 and 2011 was \$8,480 and \$6,441, respectively.

(7) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Through June 30, 2012, plan members were required to contribute 5.38% of their annual covered salary and the Utility was required to contribute 8.07% of annual covered payroll. Effective July 1, 2012, the IPERS rates changed and plan members contributed 5.78% of their annual covered salary and the Utility contributed 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2012, and 2011 were \$16,809 and \$14,625, respectively, equal to the required contributions for each year.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2012 and 2011

(8) Other Postemployment Benefits (OPEB)

Plan Description - The Utility operates a high-deductible health plan which provides medical/prescription drug benefits for employees and retirees and their spouses. Employees that provide proof of insurance elsewhere can elect to opt-out of coverage and receive a payment-in-lieu of insurance. There are 4 active members, -0- retired, and 1 opt-out in the plan. The medical/prescription drug benefits are provided through a high-deductible health plan with Wellmark.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently funds the retiree benefit plan on a pay-as-you-go basis and pays 100% of both single and family coverage. The Utility also contributed 50% of the deductible into participating employees' health savings accounts. Monthly premiums were \$352 for employee only, \$722 for employee/spouse, \$667 for employee/children, and \$1,082 for employee/spouse/children. Those premiums were for \$2,500/\$5,000 deductibles and out-of-pocket maximums of \$2,500/\$5,000. Employees that opt-out receive a \$450 monthly stipend less any coverage retained through the Utility (i.e., disability, life, dental, etc). For the year ended December 31, 2012, the Utility contributed \$37,412 toward the health insurance plan and plan members eligible for benefits contributed \$-0- to the plan. Additionally, the Utility contributed \$7,500 toward Health Savings Accounts and paid \$5,400 in lieu of insurance.

(9) Purchase Commitment

In 1993, Manning Municipal Gas Department entered into an agreement with Clayton Energy Corporation of Wahoo, Nebraska whereby Clayton will act as an independent contractor and purchase gas on behalf of the Utility. In September 1995, an addendum was made to this agreement which reiterated the primary term of the agreement to run through October 1996, and extended the secondary terms to run for three years unless terminated one year and ninety days prior to the commencement of any secondary term. The agreement is now open ended and continues to run unless either party gives notification to make a change.

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2012 and 2011**

(10) Long Term Transportation Agreement

The Manning Municipal Gas Department entered into a long term transportation contract with Ag Processing Inc. (AGP) to transport gas from Northern Natural's town border station to AGP's Manning, Iowa plant for .15 cents per MMBtu plus a \$100.00 monthly fee for a period of seven years ending November 1, 1998. This contract now continues on a year to year basis at the same rates.

(11) 28E Agreements

The Board of Trustees approved on September 13, 2007 to enter into an agreement under Iowa Code Chapter 28E to establish an agency to be known as the Public Energy Financing Authority, an Iowa Joint Powers Agency. The purposes of the Agency are to acquire and procure energy resources, or the rights to acquire thereto, including in particular natural gas and electric energy, and to provide for the transportation, transmission, distribution, sale and/or storage thereof in and to each member's service area.

The Gas Utility also has 28E Agreements with the Cities of Templeton and Aspinwall to provide natural gas services, construct and maintain gas distribution lines, and to collect, account for, and remit surcharges to the two cities.

(13) Risk Management

Manning Municipal Gas Department is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

(14) Contingencies and Uncertainties

The Utility provides health care benefits to employees under a self insurance, reinsured plan. The Company's maximum exposure for 2012 under the re-insurance plan is approximately \$14,000.

Other Information

Manning Municipal Gas Department
Budgetary Comparison Schedule of Revenues, Expenses and
Changes in Balances – Budget and Actual (Cash Basis)
For the Year Ended December 31, 2012

	<u>Accrual Basis</u>	<u>Accruals</u>	<u>Cash Basis</u>
Receipts:			
Gas sales	\$ 896,000	\$ 21,970	\$ 917,970
Non-operating	46,008	(3,032)	42,976
Total Receipts	<u>942,008</u>	<u>18,938</u>	<u>960,946</u>
Expenditures:			
Purchased gas	396,358	(10,917)	385,441
Distribution	158,856	15,649	174,505
Administrative	290,756	(4,875)	285,881
Non-operating	39,584	-0-	39,584
Contingency	-0-	-0-	-0-
Total Expenditures	<u>885,554</u>	<u>(143)</u>	<u>885,411</u>
Net Change in Net Assets	56,454	\$ <u>19,081</u>	\$ <u>75,535</u>
Net Assets at Beginning of Year	<u>3,473,918</u>		
Net Assets at End of Year	\$ <u>3,530,372</u>		

See accompanying independent auditor's report.

Original and Final <u>Budget</u>		Final to Actual <u>Variance</u>	
\$	2,036,500	\$	(1,118,530)
	-0-		42,976
	<u>2,036,500</u>		<u>(1,075,554)</u>
	1,345,000		959,559
	241,000		66,495
	373,000		87,119
	-0-		(39,584)
	77,500		77,500
	<u>2,036,500</u>		<u>1,151,089</u>
\$	<u>-0-</u>	\$	<u>75,535</u>

Manning Municipal Gas Department
Notes to Other Information -
Budgetary Reporting
December 31, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Utility adopts and submits a budget on the cash basis to the City for approval in the City's required public notice and budget hearing process. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

For the year ended December 31, 2012, the budget was not amended and the disbursements of the Utility did not exceed amounts budgeted.

**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Prepared in Accordance with
*Government Auditing Standards***

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

February 6, 2013

Lonnie G. Muxfeldt
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Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on and Audit of
Financial Statements Prepared in Accordance with
Government Auditing Standards

To the Board of Trustees of the
Manning Municipal Gas Department

I have audited the accompanying financial statements of the Manning Municipal Gas Department as of and for the year ended December 31, 2012, and have issued my report thereon dated February 6, 2013. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with generally accepted accounting principles. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Manning Municipal Gas Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Manning Municipal Gas Department's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Manning Municipal Gas Department's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Manning Municipal Gas Department's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as

February 6, 2013
Manning Municipal Gas Department
Report on Internal Control

described in the Schedule of Findings, I identified a certain deficiency in internal control over financial reporting that I consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Manning Municipal Gas Department's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in Part I of the accompanying Schedule of Findings as item I-A-12 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in Part I of the accompanying Schedule of Findings as items, I-B-12 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Manning Municipal Gas Department's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2012 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Utility. Since my audit was based on test and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Manning Municipal Gas Department's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the Utility's responses, I did not audit

February 6, 2013
Manning Municipal Gas Department
Report on Internal Control

the Gas Department's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Manning Municipal Gas Department and other parties to whom the Utility may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of Manning Municipal Gas Department during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Murphy Associates, CPA, P.C.

**Manning Municipal Gas Department
Schedule of Findings
Year Ended December 31, 2012**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation - I realize that a segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will try to use the staff in the most efficient way to achieve maximum internal control possible with the staff available.

Conclusion - Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-12 Disbursements - Two disbursements (checks) were dispatched prior to board approval. Indeed, the checks cleared the bank weeks before the board approved the disbursements for payment.

Recommendation - Unless otherwise authorized, disbursements should not be dispatched prior to board approval. This is as integral a part of the disbursement process as recording the transaction or cutting the check.

Response - Disbursement procedures will be reviewed and revised as necessary.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**Manning Municipal Gas Department
Schedule of Findings
Year Ended December 31, 2012**

Part II: Other Findings Related to Statutory Reporting:

- II-A-12 Certified Budget - Total disbursements during the year ended June 30, 2012, did not exceed the amounts budgeted. The Utility adopts an annual budget on the City of Manning's fiscal year ended June 30th but presents the budgetary comparison on the calendar year.
- II-B-12 Questionable Disbursements - I noted no disbursements for parties, banquets, or other entertainment for employees that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-12 Travel Expense - No disbursements of Municipal Utility's money for travel expenses of spouses of Municipal Utility's officials or employees were noted.
- II-D-12 Business Transactions - Business transactions between the Utility and Utility officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Ken Spies, Manager, Owner of Spies Fur Co	Supplies	\$ 877
Allen Rix, Trustee, Owner of BP Amoco	Fuel	\$ 667

The transactions with the manager and the trustee do not appear to represent conflicts of interest since they did not exceed \$2,500 during the year.

**Manning Municipal Gas Department
Schedule of Findings
Year Ended December 31, 2012**

Part II: Other Findings Related to Statutory Reporting (Continued):

- II-E-12 Bond Coverage - Surety bond coverage of Municipal Utility's officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-12 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.

- II-G-12 Board Minutes - No transactions were found that I believe should have been approved in the Board minutes but were not.

